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BLUMFIELD-REESE WATER AUTHORITY

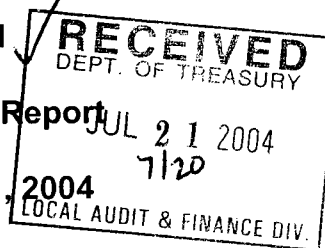
Saginaw and Tuscola Counties, Michigan

Annual Financial Statements

and

Auditors' Report

March 31, 2004



AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Blumfield Reese Water Authority	County
Audit Date March 31, 2004	Opinion Date May 7, 2004	Date Accountant Report Submitted to State: July 20, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 3023 Davenport	City Saginaw	State MI	ZIP 48602
Accountant Signature <i>Robert J. Yeo</i>			

BLUMFIELD-REESE WATER AUTHORITY

Saginaw and Tuscola Counties, Michigan

Annual Financial Statements

and

Auditors' Report

March 31, 2004

BOARD MEMBERS

		<u>TERM EXPIRES</u>
DONALD REIF	CHAIRMAN	3/31/04
ROBERT MANLEY	VICE-CHAIRMAN	3/31/04
HOWARD BERNREUTER	TREASURER	3/31/06
DON HAUSBECK	SECRETARY	3/31/05
JIM PRUETER	MEMBER	3/31/05
JOE HEMBLING	MEMBER	3/31/04
MIKE ROGERS	MEMBER	3/31/05
MIKE TROMBLEY	MEMBER	

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YEO & YEO
CPAs & Business Consultants

Independent Auditors' Report

Board of Trustees
Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan

We have audited the accompanying general purpose financial statements of the Blumfield-Reese Water Authority as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Blumfield-Reese Water Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Blumfield-Reese Water Authority at March 31, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan

May 7, 2004

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Balance Sheet

	March 31,	
	<u>2004</u>	<u>2003</u>
Assets		
Current assets		
Cash and cash equivalents		
Cash on hand	\$ 150	\$ 150
Cash on deposit	311,308	273,501
Certificate of deposit	<u>153,973</u>	<u>87,130</u>
	465,431	360,781
Accounts receivable - water	59,717	62,885
Prepaid insurance	1,012	11,492
Inventory - materials and supplies, at cost	4,745	4,198
Due from Bavarian Builders	-	4,114
Due from Blumfield Township	<u>10,893</u>	<u>10,893</u>
Total current assets	<u>541,798</u>	<u>454,363</u>
Restricted assets		
Cash and cash equivalents		
Cash on deposit - extensions	-	4,708
Cash on deposit - system replacement fees	40,567	22,614
Long-term contract receivable - extensions	<u>195,335</u>	<u>231,235</u>
Total restricted assets	<u>235,902</u>	<u>258,557</u>
Property, plant and equipment, at cost		
Tower sign	1,895	1,895
Land and improvements	62,918	62,918
Buildings	49,428	49,428
Equipment	18,152	14,929
Elevated tank	98,108	98,108
Distribution system	3,394,032	3,389,264
Construction in progress	<u>90,928</u>	<u>-</u>
	3,715,461	3,616,542
Less: accumulated depreciation	<u>1,304,343</u>	<u>1,215,260</u>
Net property, plant and equipment	<u>2,411,118</u>	<u>2,401,282</u>
Total	<u><u>\$ 3,188,818</u></u>	<u><u>\$ 3,114,202</u></u>

See Accompanying Notes to Financial Statements

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Balance Sheet
(Continued)

	March 31,	
	2004	2003
Liabilities and Fund Equity		
Liabilities		
Current liabilities		
Maturing general obligation bonds	\$ 40,000	\$ 40,000
Accounts payable	17,352	15,309
Due to property owners	20,674	29,268
Total current liabilities	78,026	84,577
Current liabilities payable from restricted assets		
Maturing bonds and contracts payable	29,200	35,900
Deferred revenue		
M-46/M-83 extension	6,371	9,758
M-15, W. of Block extension	551	2,177
Janes, W. of Beyer extension	(4,727)	(4,085)
Janes, E. of Beyer extension	(3,166)	(2,253)
Block/M-46/Reese	(10,878)	(14,619)
Bradley	(3,218)	(4,913)
Dehmel	2,895	2,895
M-15/Reese/Wilder	16,999	20,906
Beyer, N. of M-81	(5,158)	(5,158)
Total current liabilities payable from restricted assets	28,869	40,608
Long-term liabilities (less current maturities)		
General obligation bonds payable		
1968 issue	80,000	120,000
M-46/M-83 extension	45,000	50,000
Installment purchase contracts		
Janes, E. of Beyer extension	12,000	15,000
Block\M-46\Reese	65,337	81,670
Bradley	43,798	48,665
Total long-term liabilities	246,135	315,335
Fund equity		
Contributions in aid of construction		
Subdividers and developers	260,158	268,732
Blumfield Township	1,118,963	1,147,177
Retained earnings	1,456,667	1,257,773
Total fund equity	2,835,788	2,673,682
Total	<u>\$ 3,188,818</u>	<u>\$ 3,114,202</u>

See Accompanying Notes to Financial Statements

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Statement of Revenues and Expenses
Year Ended March 31, 2004

	General Operations	Original Bond Activity	Blumfield Township Extensions	Total
Revenues				
Connection income	\$ 19,250	\$ -	\$ -	\$ 19,250
Less: connection expenses	16,822	-	-	16,822
Net connection income (loss)	2,428	-	-	2,428
Water revenues	315,239	-	-	315,239
Less: cost of water	168,007	-	-	168,007
Net water revenue	147,232	-	-	147,232
Water availability charge	-	31,483	-	31,483
Total revenues	149,660	31,483	-	181,143
Operating expenses	226,202	-	-	226,202
Net income (loss) from operations	(76,542)	31,483	-	(45,059)
Other revenue				
Interest	5,505	-	-	5,505
Property owner payment for Dixon/Meridian extension	98,542	-	-	98,542
Bond revenues				
Bond charge	-	51,572	-	51,572
Oversize meter charge	-	3,956	-	3,956
System replacement fees	40,567	-	-	40,567
Systems fees	-	26	-	26
Trailer park				
Monthly charge	-	2,636	-	2,636
Rental of tower space	7,685	-	-	7,685
Late charges and other	4,367	-	-	4,367
Miscellaneous	984	-	-	984
Contributions from municipalities for bond interest and fees	-	-	12,963	12,963
Total other revenue	157,650	58,190	12,963	228,803
Other charges				
Interest on bonds	-	8,400	12,563	20,963
Fees	-	275	400	675
Total other charges	-	8,675	12,963	21,638
Net income (loss)	\$ 81,108	\$ 80,998	\$ -	\$ 162,106

See Accompanying Notes to Financial Statements

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Statement of Changes in Fund Equity
Year Ended March 31, 2004

	Contributions in Aid of Construction	Retained Earnings	Total
Balance - March 31, 2003	\$ 1,415,909	\$ 1,257,773	\$ 2,673,682
Net income	-	162,106	162,106
Redistribution of depreciation attributable to contributions	<u>(36,788)</u>	<u>36,788</u>	<u>-</u>
Balance - March 31, 2004	<u>\$ 1,379,121</u>	<u>\$ 1,456,667</u>	<u>\$ 2,835,788</u>

See Accompanying Notes to Financial Statements

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Statement of Cash Flows

	Year Ended March 31,	
	2004	2003
Cash flows from operating activities		
Net income (loss) from operations	\$ (45,059)	\$ (91,419)
Adjustments to reconcile net income from operations to net cash provided by operating activities		
Depreciation	89,363	86,524
(Increase) decrease in:		
Accounts receivable	3,168	(2,584)
Prepaid expenses	10,480	(9,992)
Inventory	(547)	79
Due from Bavarian Builders	4,114	-
Increase (decrease) in:		
Accounts payable	2,043	821
Due to property owners	(8,594)	-
Deferred revenue	(5,039)	(7,208)
Net cash provided (used) by operating activities	49,929	(23,779)
Cash flows from capital and related financing activities		
Contributions in aid of construction	-	9,900
Debt service charges	111,793	93,828
Contributions for bond interest, fees and other	12,963	14,840
Payments from long-term contract receivable	35,900	35,900
Principal payments on long-term debt	(75,900)	(75,900)
Interest payments on general obligation bonds	(20,963)	(25,240)
Fees	(675)	(675)
Special assessments received	-	369,398
Payments from property owners received	98,542	36,500
Additions to property, plant and equipment	(99,199)	(451,035)
Net cash provided by capital and related financing activities	62,461	7,516
Cash flows from investing activities		
Purchase of certificate of deposit	(66,843)	(47,130)
Interest income	5,505	8,992
Net cash used by investing activities	(61,338)	(38,138)
Net change in cash and cash equivalents	51,052	(54,401)
Cash and cash equivalents, beginning of year	300,973	355,374
Cash and cash equivalents, end of year	\$ 352,025	\$ 300,973

See Accompanying Notes to Financial Statements

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Notes to Financial Statements
March 31, 2004

NOTE 1 - ORGANIZATION AND PURPOSE

In April of 1966, Blumfield Township and the Village of Reese organized the Blumfield-Reese Water Authority. Upon organization, the Water Authority issued \$1,000,000 of bonds dated October 1, 1968 for the purpose of constructing certain storage, transmission and distribution facilities to provide a supply of filtered water from the City of Saginaw to the respective municipalities. The bonds are secured by the full faith and credit pledges of the respective municipalities on an equal basis. Effective May 1, 1997, the Corporation amended its articles of incorporation to include the Township of Denmark.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared on the accrual method of accounting, in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The following is a summary of the more significant policies.

THE REPORTING ENTITY

In accordance with the provisions of GASB Statement 14, certain other governmental organizations are not considered to be part of the Water Authority entity for financial reporting purposes. The criteria established by GASB 14 for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements of certain other governmental organizations listed below are not included in the financial statements of the Water Authority.

Blumfield Township
Village of Reese
Denmark Township

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

The proprietary fund types (Enterprise Funds) are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Water Authority considers all highly liquid debt instruments purchased with a contractual maturity of three months or less to be cash equivalents.

INVENTORY

Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The costs of inventories are recorded as expenditures when consumed.

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Notes to Financial Statements
March 31, 2004

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPARATIVE DATA

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT 20

In accordance with GASB Statement 20, the Authority has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its financial statements.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT 34

The Governmental Accounting Standards Board has issued Statement No. 34, *Basic Financial statements and Management's Discussion and Analysis for State and Local Governments*. This new reporting standard will impact the Authority's revenue and expenditure recognition; and assets, liabilities and fund equity reporting. The new standard will also require reformatting of the financial statements and restating beginning balances. The City is required to implement the new reporting model for the fiscal year ending March 31, 2005. Due to the significance of the changes required, it is not possible to present proforma data prior to implementation.

NOTE 3 - CASH AND INVESTMENTS

As of March 31, 2004 and 2003, cash and cash equivalents are recorded in the financial statements in the amount of \$351,875 and \$300,823 (excluding cash on hand of \$150), respectively. Total bank deposits amounted to \$318,874 and \$311,178, respectively, at year end. Of these amounts, \$105,666 and \$105,773, respectively, was insured and \$213,208 and \$152,405, respectively, was uninsured. The remaining \$43,000 and \$53,000, respectively, was in a municipal investment fund. In addition, the Authority held certificates of deposit as of March 31, 2004 and 2003 in the amount of \$153,973 and \$87,130, respectively. Of these amounts, \$100,000 and \$87,130 was insured, respectively. The nature of the investment fund does not allow for risk categorization, in accordance with GASB Statement No. 3.

INVESTMENTS - The Authority is authorized by Michigan Public Acts 217 and 367 of 1982 to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and pooled investment funds that are composed of authorized investment vehicles. The only investments held by the Authority for the fiscal years ended March 31, 2004 and 2003 were municipal investment funds.

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Notes to Financial Statements
March 31, 2004

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

The straight line method of depreciation was used for depreciating plant and equipment based on the following useful lives:

Land improvements	15 years
Buildings	10-15 years
Elevated Tank	5-40 years
Distribution System:	
Lines	45 years
Pumps and Controls	15 years
Meters	15 years
Equipment	5-10 years
Tower sign	10 years

Depreciation expense for the fiscal year ended March 31, 2004 was \$89,363.

NOTE 5 - LONG TERM DEBT

Debt is as follows:

	March 31, 2004	2003
Beginning balance	\$ 391,235	\$ 467,135
Payments during year	(75,900)	(75,900)
Ending balance	315,335	391,235
Less: current maturities	69,200	75,900
Long-term portion of debt	<u>\$ 246,135</u>	<u>\$ 315,335</u>

The annual requirements to pay principal and interest of 6% for the 1968 bonds of \$1,000,000 are as follows:

Year Ending March 31,	Principal	Interest	Total
2005	\$ 40,000	\$ 6,000	\$ 46,000
2006	40,000	3,600	43,600
2007	40,000	1,200	41,200
	<u>\$ 120,000</u>	<u>\$ 10,800</u>	<u>\$ 130,800</u>

During the year ended March 31, 1993, the Water Authority issued \$105,000 of fully registered bonds for the purpose of constructing the M-46/M-83 water main extension. The principal and interest on the bonds are to be repaid by Blumfield Township through a contract entered into between the Authority and Township.

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Notes to Financial Statements
March 31, 2004

Future interest and principal payments are as follows:

<u>Year Ending March 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	6.40%	\$ 5,000	\$ 3,173	\$ 8,173
2006	6.50%	5,000	2,850	7,850
2007	6.60%	5,000	2,523	7,523
2008	6.70%	5,000	2,190	7,190
2009	6.75%	5,000	1,855	6,855
2010-2012	6.75%	<u>25,000</u>	<u>2,869</u>	<u>27,869</u>
		<u>\$ 50,000</u>	<u>\$ 15,460</u>	<u>\$ 65,460</u>

During the year ended March 31, 1995, the Water Authority entered into an installment purchase contract for \$245,000 for the purpose of constructing the Block Road / M-46 / Reese Road water main extension. The principal and interest on the contract are to be repaid by Blumfield Township through a contract entered into between the Authority and Township.

Future interest and principal payments are as follows:

<u>Year Ending March 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	5.0%	\$ 16,333	\$ 4,140	\$ 20,473
2006	5.0%	16,333	3,312	19,645
2007	5.0%	16,333	2,484	18,817
2008	5.0%	16,333	1,661	17,994
2009	5.0%	<u>16,338</u>	<u>828</u>	<u>17,166</u>
		<u>\$ 81,670</u>	<u>\$ 12,425</u>	<u>\$ 94,095</u>

During the year ended March 31, 1995, the Water Authority entered into an installment purchase contract for \$ 45,000 for the purpose of constructing the Janes, E. of Beyer Road water main extension. The principal and interest on the contract are to be repaid by Blumfield Township through a contract entered into between the Authority and Township.

Future interest and principal payments are as follows:

<u>Year Ending March 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	5.0%	\$ 3,000	\$ 760	\$ 3,760
2006	5.0%	3,000	608	3,608
2007	5.0%	3,000	456	3,456
2008	5.0%	3,000	305	3,305
2009	5.0%	<u>3,000</u>	<u>152</u>	<u>3,152</u>
		<u>\$ 15,000</u>	<u>\$ 2,281</u>	<u>\$ 17,281</u>

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Notes to Financial Statements
March 31, 2004

During the year ended March 31, 1999, the Water Authority entered into an installment purchase contract for \$73,000 for the purpose of constructing the Bradley Road water main extension. The principal and interest on the contract are to be repaid by Blumfield Township through a contract entered into between the Authority and the Township.

Future interest and principal payments are as follows:

<u>Year Ending March 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	4.85%	\$ 4,867	\$ 2,360	\$ 7,227
2006	4.85%	4,867	2,124	6,991
2007	4.85%	4,867	1,888	6,755
2008	4.85%	4,867	1,652	6,519
2009	4.85%	4,867	1,416	6,283
2010-2014	4.85%	<u>24,330</u>	<u>3,540</u>	<u>27,870</u>
		<u>\$ 48,665</u>	<u>\$ 12,980</u>	<u>\$ 61,645</u>

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Schedule of Operating Expenses
Year Ended March 31, 2004

Salaries	\$ 59,539
Board expense	10,230
Legal and professional	7,350
Office expense	4,040
Utilities	3,743
Insurance	14,086
Equipment rental	4,800
Repair and maintenance	24,539
Payroll taxes	4,234
Miscellaneous	<u>4,278</u>
Total operating expenses before depreciation	136,839
Depreciation	<u>89,363</u>
Total operating expenses	<u>\$ 226,202</u>

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Schedule of Revenues
Year Ended March 31, 2004

Connection income	
Blumfield	\$ 8,414
Reese	8,275
Denmark	<u>2,561</u>
Total connection income	<u>19,250</u>
Water revenues	
Blumfield	129,519
Reese	123,945
Denmark	31,170
Water salesman	<u>30,605</u>
Total water revenues	<u>315,239</u>
Other revenue	
Rental of tower space	7,685
Late charges	4,367
Miscellaneous	<u>984</u>
Total other revenue	<u>13,036</u>
	<u><u>\$ 347,525</u></u>

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Schedule of Expenses Excluding Depreciation
Year Ended March 31, 2004

Connection expense	<u>\$ 16,822</u>
Water cost	
Blumfield	69,027
Reese	66,057
Denmark	16,612
Water salesman	<u>16,311</u>
Total water cost	<u>168,007</u>
Operating expenses excluding depreciation	
Salaries	59,539
Board expense	10,230
Legal and professional	7,350
Office expense	4,040
Utilities	3,743
Insurance	14,086
Equipment rental	4,800
Repair and maintenance	24,539
Payroll taxes	4,234
Miscellaneous	<u>4,278</u>
Total operating expenses excluding depreciation	<u>136,839</u>
Total expenses excluding depreciation	<u><u>\$ 321,668</u></u>

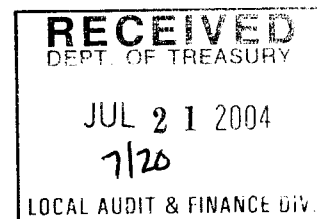
Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Schedule of Original Bond
Revenues, Bond Payments and Municipal Capital
Year Ended March 31, 2004

	<u>Blumfield Capital</u>	<u>Blumfield Original</u>	<u>Reese Original</u>	<u>Denmark Original</u>	<u>Total</u>
Revenue					
Bond charge	\$ -	\$ 25,793	\$ 25,779	\$ -	\$ 51,572
Oversize meter	-	1,136	2,497	323	3,956
Trailer Park					
Monthly charge	-	-	2,636	-	2,636
System fees	16	-	-	10	26
Water availability charge					
Original	30,083	-	1,400	-	31,483
	<u>\$ 30,099</u>	<u>\$ 26,929</u>	<u>\$ 32,312</u>	<u>\$ 333</u>	<u>\$ 89,673</u>
Bond payments					
Principal	\$ -	\$ 20,000	\$ 20,000	\$ -	\$ 40,000
Interest	-	4,200	4,200	-	8,400
Fees	-	137	138	-	275
	<u>\$ -</u>	<u>\$ 24,337</u>	<u>\$ 24,338</u>	<u>\$ -</u>	<u>\$ 48,675</u>
Balance collected in previous years	\$ 258,831				
Current year revenues	<u>30,099</u>				
Balance, March 31, 2004	<u>\$ 288,930</u>				

Blumfield-Reese Water Authority
Saginaw and Tuscola Counties, Michigan
Schedule of Water Charges
Year Ended March 31, 2004

	<u>Blumfield Capital</u>	<u>Reese</u>	<u>Denmark</u>	<u>Total</u>
Water availability charge	\$ 30,083	\$ 1,400	\$ -	\$ 31,483
System fees	16	-	10	26
	<u>\$ 30,099</u>	<u>\$ 1,400</u>	<u>\$ 10</u>	<u>\$ 31,509</u>

	<u>System Replacement Fund</u>			
	<u>Blumfield</u>	<u>Reese</u>	<u>Denmark</u>	<u>Total</u>
System replacement fees	<u>\$ 20,501</u>	<u>\$ 14,735</u>	<u>\$ 5,331</u>	<u>\$ 40,567</u>



May 7, 2004

Board of Trustees
Blumfield-Reese Water Authority
12810 E. Washington Road
Reese, Michigan

In planning and performing our audit of the financial statements of the Blumfield-Reese Water Authority for the year ended March 31, 2004, we considered the Authority's internal control system to determine our auditing procedures for the purposes of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we became aware of the following matter that is an opportunity for strengthening internal controls and operating efficiency. This letter does not affect our report dated March 31, 2004, on the financial statements of the Blumfield-Reese Water Authority.

DOCUMENTATION OF DISBURSEMENTS

Strong internal controls require documentation for all transactions. The following items were noted in the cash disbursements testing of 25 items:

- Voided checks were not properly defaced; thus creating a potential for someone who can gain access to the check to misappropriate cash by completing the data on the check for fraudulent purposes. To reduce this risk, we recommend that all voided checks be defaced and rendered unusable by tearing off the signature corner.
- One disbursement was not recorded to the appropriate general ledger account requiring an adjusting journal entry to record it to the proper account.

IMPROVE FINANCIAL RECORDS

At present, the Authority does not maintain an adequate set of financial records. A complete chart of accounts is not utilized, which makes it difficult to record certain cash receipts and disbursements to the proper accounts. Such a system does not permit the preparation of accurate and reliable monthly financial statements. During the audit, excessive time is spent in preparing and auditing the financial statements due to numerous reclassifications being necessary.

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May 7, 2004

Board of Trustees
Blumfield-Reese Water Authority
Reese, Michigan

PRIOR YEAR COMMENTS

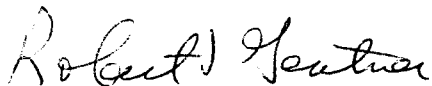
WATER BILLINGS AND RECEIPTS

In fiscal year 2003, the Authority ended their arrangement with Frankenmuth Credit Union, in which the Credit Union had collected the majority of the Authority's water billings. Due to this change, all procedures related to billing and collections are handled by the same individuals. These individuals take the meter readings, input the meter readings, mail out bills, collect cash receipts, and credit customers' accounts. This presents a significant internal control issue. We understand that in small offices it is very difficult to separate accounting functions; however, we recommend the Board review the above and establish proper internal controls in this area.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss these items in further detail at your convenience or assist you in implementing the recommendations.

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants

A handwritten signature in black ink, appearing to read "Robert L. Gentner". The signature is written in a cursive, flowing style.

Robert L. Gentner, CPA